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PALM DRIVE HEALTH CARE DISTRICT
7

8 UNITED STATES BANKRUPTCY COURT
9 NORTHERN DISTRICT OF CALIFORNIA
10 SANTA ROSA DIVISION

11 In Re:

12 PALM DRIVE HEALTH CARE
13 DISTRICT, a California local health
care district,
14 Debtor.
15

Bk. No.: 14-10510

Chapter 9

**DECLARATION OF THOMAS M.
HARLAN IN SUPPORT OF DEBTOR'S
EX PARTE MOTION FOR
AUTHORITY TO ENTER INTO POST-
PETITION SECURED FINANCING
AGREEMENT WITH THE COUNTY
OF SONOMA ON AN INTERIM AND
FINAL BASIS PURSUANT TO
PURSUANT TO 11 U.S.C. § 364(c) AND
FED. R. BANKR. P. 4001(c)**

19
20 I, Thomas M. Harlan, declare as follows:

- 21 1. I am the Chief Executive Officer of Palm Drive Health Care District (the "District"),
22 debtor in the above-captioned bankruptcy case. I make this declaration in support of
23 the District's ex parte motion (the "Motion") for authority to enter into a post-
24 petition secured financing agreement ("Financing Agreement") with the County of
25 Sonoma ("Sonoma") on an interim and final basis pursuant to pursuant to 11 U.S.C.
26 § 364(c), as incorporated into Chapter 9 of the Bankruptcy Code by 11 U.S.C.

1 § 901(a), and Fed. R. Bankr. P. 4001(c). I have personal knowledge of the facts
2 stated in this declaration, and if called as a witness, I could and would testify
3 competently to these facts.

- 4 2. The District is a local health care district organized under California Health &
5 Safety Code §§ 32000 *et seq.* As authorized by Government Code § 53760.5, after a
6 noticed public hearing held on April 1, 2014, at which public comment was received
7 on the District's fiscal condition, the District declared a fiscal emergency by a
8 resolution adopted unanimously by the District's Board of Directors. *See*
9 Resolution 14-04 (the "Authorizing Resolution"), adopted on April 1, 2014, a true
10 and correct copy of which is attached as Exhibit 1 to the Petition filed commencing
11 this bankruptcy case.
- 12 3. On April 7, 2014 (the "Petition Date"), the District filed for relief under Chapter 9 of
13 title 11 of the United States Code (the "Bankruptcy Code").
- 14 4. The filing of this Chapter 9 case on an emergency basis was made necessary by the
15 severe fiscal emergency facing the District. The District faces an immediate cash
16 crisis, and without access to the financing sought by the Motion, the District would
17 exhaust its cash in less than 60 days. The emergency is so severe that on April 7,
18 2014, the Board of Directors of the District further adopted a resolution directing
19 management to begin the process of closing Palm Drive Hospital and realigning the
20 District's health care services to a reduced cost structure. In the meantime,
21 however, the District has immediate need for short-term financing, to conduct the
22 wind-down of the Hospital and the realignment of other services in an orderly
23 manner consistent with public welfare and patient safety through the critical
24 transition period.
- 25 5. The District's bonded indebtedness includes long-term obligations as provided
26 under the terms of the indentures for the Series 2005 Certificates of Participation
 (the "2005 Certificates") and the Series 2010 Certificates of Participation (the "2010

1 Certificates” and together with the 2005 Certificates, the “Indenture Certificates”).

2 The Indenture Certificates are secured by revenues from a parcel tax levied under
3 the authority of Measure W approved by the voters of the District in 2004.

- 4 6. As set forth in the Indenture Certificates, each year after principal, interest, and
5 certain reserves are funded from parcel tax revenues, the indenture trustee (the
6 “Indenture Trustee”) remits to the District certain “excess revenues” (the “Excess
7 Revenues”), which the District is then free to use for its operations in providing
8 health care services. These Excess Revenues are received in staggered amounts,
9 with by far the largest sum received in December of each year.
- 10 7. Prior to filing the Petition commencing the present Chapter 9 case, the District has
11 attempted to obtain unsecured financing or financing treated as an allowed
12 administrative expense under Section 503 of the Bankruptcy Code. Specifically, the
13 District approached several potential financing sources including a neighboring
14 health care district and Sonoma County itself. However, no party was willing to
15 lend funds to the District on an unsecured basis.
- 16 8. Under state law, the District is authorized to borrow short-term against parcel tax
17 revenues pursuant to Cal. Govt. Code § 53854.
- 18 9. Sonoma has offered to loan to the District funds on a secured basis to meet the
19 District’s short term needs (the “Sonoma Loan” or the “Loan”). The Sonoma Loan
20 will be secured by a lien on the Excess Revenues, junior to the liens of the Indenture
21 Certificates. To the extent that the Sonoma Loan cannot be repaid from Excess
22 Revenues while maintaining all required payments on the Indenture Certificates, the
23 District would also be obligated to use other lawfully available, unencumbered
24 funds to repay any such shortfall of the Sonoma Loan.
- 25 10. Accordingly, I have negotiated agreement for the Sonoma Loan, and sought
26 approval to incur the Sonoma Loan without objection from the Indenture Trustee.
I have therefore directed the District’s attorneys to present the Motion for entry of

1 an order authorizing the post-petition secured Finance Agreement.

2 11. The essential terms of the Financing Agreement for the Sonoma Loan are these:

- 3 a. The Loan is contingent on the approval of the Sonoma Board of Supervisors,
4 which approval is being actively sought. The Sonoma Loan is on the agenda
5 of a meeting of the Board of Supervisors to be held on April 15, 2014.
- 6 b. The aggregate principal sum is an amount not to exceed \$1,800,000.
- 7 c. An initial disbursement not to exceed \$600,000 would be made in the week
8 ending April 18, 2014. This sum is essential on an interim basis, and before
9 a final hearing on the Motion, for two reasons. First, the District has
10 immediate cash needs – including payroll for medical and other staff – that
11 cannot otherwise be met before a final hearing. As the cash flow attached
12 hereto shows, without the initial disbursement the District would have at best
13 cash on hand of only \$3,318 by the week ending April 25. Second, and also
14 critically, the District must have assured access to this interim disbursement
15 in order to give vendors, employees, physicians who attend at the Hospital,
16 and others sufficient confidence such that they will continue to work for or
17 do business with the District. Not to have this assured funding immediately
18 would endanger the process of orderly wind-down of the Hospital facilities
19 and transition to a reduced level of health care services, which is essential to
20 the public welfare and patient safety in the District's difficult circumstances.
- 21 d. A final disbursement of up to \$1,200,000 would be made in the week ending
22 July 4, 2014.
- 23 e. The interest rate would be 4.0 percent per annum.
- 24 f. A cash forecast for the use of the funds from the Loan is attached to this
25 Declaration as Exhibit A, covering the period from the week ending April
26 18, 2014, through the week ending July 4, 2014. This 12-week period is the
most critical portion of the term of the Loan. By July the District begins to

1 receive funds from various intergovernmental programs that will bring
2 greater stability to its cash flow, despite the insufficiency to sustain the
3 Hospital's scope as it was prior to the filing of this Chapter 9 case.

- 4 g. The Loan could be prepaid in whole or in part at any time without premium.
- 5 h. Because of fiscal-year limitations under the California tax anticipation note
6 statutory regime, the initial disbursement amount would be repaid from
7 parcel taxes either received or accrued not later than June 30, 2014.
- 8 i. Any unpaid balance of principal, interest and other charges would then be
9 due in full not later than February 28, 2015. It is expected that the County
10 will receive payment in full from the last installment of parcel tax Excess
11 Revenues that are to be regularly received or accrued in December 2014.
- 12 j. The Loan will be made as one or more tax revenue anticipation notes. These
13 notes will include the provisions for pledge of the parcel tax Excess
14 Revenues as security for repayment, junior to the liens of the Indenture
15 Certificates. It is these notes, and the Board Resolution approving the
16 borrowing, that comprise the Financing Agreement.
- 17 k. The Indenture Trustee is being asked to forbear from exercising remedies for
18 any and all non-payment defaults (*i.e.*, other than principal, interest, required
19 reserves, and fees and charges) which do exist or may exist during the term
20 of the Sonoma Loan, so long as all required payments are kept current under
21 the terms of the Indenture Certificates, the District does not challenge the
22 validity, enforceability, or priority of the Indenture Certificates and the liens
23 created thereunder, and that there is not any determination that the Indenture
24 Trustee does not have a first priority claim, lien and charge on the right to
25 possession of the Parcel Tax Revenues described in the 2005 Certificates and
26 2010 Certificates. The District is in covenant default under the Indenture
Certificates, for such matters as not paying its other debts as they come due

1 and filing for bankruptcy. However, even with the Sonoma Loan the debt
2 service coverage ratio for subordinated debt under the Indenture Certificates
3 for the aggregate of the Indenture Certificates and the subordinated Sonoma
4 Loan would likely be met.

- 5 l. An appropriate order of the Bankruptcy Court approving the Sonoma Loan is
6 a condition to the effectiveness of the agreements of the parties.
- 7 m. The Sonoma Loan has been negotiated at arms-length and in good faith by
8 Sonoma, with me, my staff, the District's independent financial consultants,
9 and the District's attorneys. The Motion requests a finding that Sonoma is
10 extending the credit in good faith for the purposes of § 364(e) of the
11 Bankruptcy Code, and I believe that such a finding is fully justified in the
12 circumstances of this loan and this case.

13 [Signature on the Following Page]
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1 I declare under penalty of perjury under the laws of the United States that the above
2 statements are true and correct. Executed at Sebastopol, California, on April 13, 2014.

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4 /s/ Thomas M. Harlan
5 Thomas M. Harlan
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**Palm Drive Health Care District
Cash Flow Forecast
Closure Under Bankruptcy Scenario
- Assume Loan from County**

BK Filing on 4/7/14															
	1	2	3	4	5	6	7	8	9	10	11	12	13		
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast		
	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	Week Ended	13-Week	Forecast
	4/11/2014	4/18/2014	4/25/2014	5/2/2014	5/9/2014	5/16/2014	5/23/2014	5/30/2014	6/6/2014	6/13/2014	6/20/2014	6/27/2014	7/4/2014	Total	July 5 - 31
1 Beginning Balance	197,498	97,976	809,512	603,318	667,943	403,805	145,268	245,476	375,807	317,292	108,916	222,203	330,611	197,498	439,530
Revenue															
2 Total Collections	412,934	413,180	413,180	366,794	406,376	406,376	406,376	268,094	211,602	211,602	211,602	211,602	81,680	4,021,395	378,994
Expenses															
Payroll & Benefits															
3 Payroll	332,102	157,394	304,064	152,032	193,413	96,706	75,210	37,605	24,713	12,357	12,357	6,178	12,357	1,416,488	37,070
4 Pension Funding	19,875	18,750	-	15,203	-	9,671	-	3,760	-	1,236	-	618	-	69,113	618
5 Health Comp.	-	-	170,000	-	-	-	170,000	-	-	-	-	-	-	340,000	-
6 Doctors	-	-	-	-	-	280,000	-	-	-	-	-	-	-	280,000	-
7 Total Payroll & Benefits	351,977	176,144	474,064	167,235	193,413	386,377	245,210	41,365	24,713	13,592	12,357	6,796	12,357	2,105,600	37,688
Other Operating Expenses															
8 A/P	77,282	118,000	75,000	75,000	75,000	75,000	-	-	-	-	-	-	-	495,282	-
9 Liability & WC Ins	-	-	35,440	-	-	-	-	35,440	-	-	-	35,440	-	106,320	35,440
10 Rent	15,696	-	-	15,696	-	-	-	-	15,696	-	-	-	15,696	62,784	15,696
11 PRIMA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Bank Loans & Leases	-	-	3,321	15,244	-	90,079	-	-	-	-	-	-	-	108,643	-
13 McKesson Pharm Withdrawals	20,000	-	20,000	-	20,000	-	-	-	-	-	-	-	-	60,000	-
14 Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Total Other Op Expenses	112,978	118,000	133,761	105,940	95,000	165,079	-	35,440	15,696	-	-	35,440	15,696	833,029	51,136
16 Total Operating Expenses	464,955	294,144	607,825	273,175	288,413	551,456	245,210	76,805	40,409	13,592	12,357	42,236	28,053	2,938,629	88,824
17 Net Cash Flow from Operations	(52,021)	119,036	(194,645)	93,619	117,963	(145,080)	161,166	191,288	171,192	198,009	199,245	169,365	53,627	1,082,765	290,170
Non-Operating Revenue															
18 Trans (To) / From Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19 Non-Patient Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20 CMSP LIHP Payment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,200,000
21 IGT Receipt of Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	631,806
22 Parcel Tax Revenue	-	-	-	400,000	-	-	-	-	-	-	-	-	200,000	600,000	-
23 County Loan	-	600,000	-	-	-	-	-	-	-	-	-	-	1,200,000	1,800,000	-
24 Total Non-Op Revenue	-	600,000	-	400,000	-	-	-	-	-	-	-	-	1,400,000	2,400,000	1,831,806
Non-Operating Expenses															
25 IGT Disbursement of Funds	-	-	-	-	-	-	-	-	-	345,428	-	-	-	345,428	-
26 Repayment of County Loan	-	-	-	400,000	-	-	-	-	-	-	-	205,000	-	605,000	-
27 Other Non-Op Expenses	2,500	2,500	2,500	2,500	2,500	2,500	-	-	-	-	-	-	-	15,000	-
28 Total Non-Op Expenses	2,500	2,500	2,500	402,500	2,500	2,500	-	-	-	345,428	-	-	205,000	965,428	-
29 Net Non-Operating Cash Flow	(2,500)	597,500	(2,500)	(2,500)	(2,500)	(2,500)	-	-	-	(345,428)	-	-	1,195,000	1,434,572	1,831,806
30 Total Net Cash Flow	(54,521)	716,536	(197,145)	91,119	115,463	(147,580)	161,166	191,288	171,192	(147,419)	199,245	169,365	1,248,627	2,517,337	2,121,976
31 Total Estimated Closure Costs	(45,000)	(5,000)	(9,050)	(26,494)	(379,601)	(110,958)	(60,958)	(60,958)	(229,708)	(60,958)	(85,958)	(60,958)	(1,139,708)	(2,275,305)	(196,583)
32 Ending Cash Balance - BK Scenario	97,976	809,512	603,318	667,943	403,805	145,268	245,476	375,807	317,292	108,916	222,203	330,611	439,530	439,530	2,364,924

Footnotes:

(1) Estimated closure costs include closure communications, security, professional fees and the purchase of tail insurance for malpractice, workers compensation, plant and property and Directors & Officers insurance in the week ending 7/4/14.

(2) Additional expenses to be dealt with through the bankruptcy process include an estimated \$3.2 million in administrative expenses and approximately \$6.7 million in outstanding pre-petition accounts payable that are not included in the forecast (general unsecured claims).

(3) Collections have been discounted 15%

(4) The County loan of \$1.8 million will be split into two tranches; (1) \$600,000 delivered on April 18th and (2) \$1.2 million delivered on July 3.